

# Varun Beverages Ltd

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## About

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- Varun Beverages Ltd, part of the RJ Corp group, a diversified business conglomerate with interests in beverages quick service restaurants dairy and healthcare is the second largest franchisee in the world outside US of carbonated soft drinks CSDs and noncarbonated beverages NCBs sold under trademarks owned by PepsiCo.
- As of March 2018 the company has been granted franchises for distribution of various PepsiCo products spread across 21 States and two Union Territories in India.
- As of March 2018 the company has 20 manufacturing plants in India and five production facilities in the international geographies one each in Nepal Sri Lanka Morocco Zambia and Zimbabwe
- On 28 September 2017 Varun Beverages announced that the company has concluded the acquisition of PepsiCo India's previously franchised territories in the state of Odisha and parts of Madhya Pradesh along with two manufacturing units at Bargarh and Bhopal Mandideep. On 4 January 2018 Varun Beverages announced that it has further deepened its relationship with PepsiCo by entering into a strategic partnership for the larger Tropicana portfolio along with Gatorade and Quaker ValueAdded Dairy in territories

across North and East India. This is part of VBLs strategy to expand its product portfolio through its valued relationship with PepsiCo.

- The company is now a franchisee for PepsiCo products across 21 States and 2 Union Territories of India

## Rationale- Fundamental analysis of the company

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- **Share price:** 1172.85(+26 rs) : +2.32%, in the last two years stock price has moved up by 186 %
- **Sector:** FMCG: subsector: Food Processing
- **Presence:** India, Sri Lanka, Nepal(80% revenue), Morocco, Zimbabwe, Zambia(20% revenues)
- **Products:** 1. carbonated soft drinks(80%)
  - 2. Aquafina packaged drinking(17%)
  - 3. Gatorade sports drinks, Lipton
  - 4. Tropicana juices (8%)

## Financial analysis: Balance sheet

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Table1. Balance sheet of Varun Beverages (FY-2021). All numbers are in millions INR

Total Assets	95,818.9	
Total Liabilities	55,019.82	
Total Equity	Asset- liability	40,799.08
Debt (long-term)-equity ratio	(18,087.15/40,799.08)	0.44:1
Debt-equity ratio	(24,817.36/40,799.08)	0.66:1

## Financial analysis: Income statement

Table 2: Income statement of Varun Bevarages Ltd. All numbers are in millions INR, text highlighted in red color represents the expenditure and text highlighted in blue represents Profits.

Revenue/sales	89,582.91	VA(%)	VA(%)
(i) COGS	45,916.69	51.25%	-
(ii) Gross Profit = Revenue – COGS	43,666.22	36.01%	GPR=[Gross profit/ Revenue] *100]= 48.74%
(iii) Operating cost/OPEX	32,262	36.01%	-
(iv) Operating Profit = Gross Profit – OPEX	11,404.23		OPR= (Operating profit/Revenue *100)= 12.7%
(v) NOI (Loss on Sale of Assets)	170.4 + 81.09 (other)= 251.49	0.28%	-
(vi) EBDIT =Operating Profit – NOI	11,152.74		12.44%
(vii) Interest	1,086.66	1.21%	-
(viii) Net income before tax= EBIT- Interest	10,066.08		11.23%
(ix) Taxes	2,605.56	2.90%	-
(x) Net income after tax/Net Profit	7460.52		NPR= 8.32%

## Financial health analysis based on Profitability and Solvency

Table 3: Financial health analysis of Varun Beverages based on Profitability and Solvency.

	Parameter	Range	Value
Profitability	GPR	>40%	48.74%
	OPR	>10%	12.7%
	NPR	5-6%	8.32%
Solvency	ICR	>(5-6 times)	10.49 times
	Debt-equity ratio	<1	0.44, 0.66

Fundamentals of a company	Measures
Profitability	Gross profit ratio
Solvency	debt-equity ratio and Interest coverage ratio (ICR)
Liquidity	debt (Short term)-equity ratio
Market value	Financial market

## Break-even point analysis

The break-even point is the point at which a company's revenue and expenses are equal, and the company is generating neither a profit nor a loss. By calculating the break-even point, a company can determine the minimum level of sales required to cover its expenses and begin making a profit. By analyzing this information, a company can make informed decisions about its pricing, production, and overall financial status.

The "red" and "green" zones in Table 1 refer to the financial status of a company, relative to its break-even point.

"Red zone" refers to the situation where a company's expenses are higher than its revenue, and it is operating at a loss.

"Green zone" refers to the situation where a company's revenue is higher than its expenses, and it is operating at a profit.

Knowing the break-even point helps a company understand where it stands financially and make decisions to move from the red zone to the green zone, such as adjusting prices, controlling costs, or increasing sales.

Table 4. Method for Break Even Point Identification

<b>Three stages of organization</b>	if (total revenue < total expenditure)	<b>Red</b>
	if (total revenue > total expenditure)	<b>Green</b>
	if (total revenue = total expenditure)	<b>Break-even point</b>

Table 5. Break Even Analysis of Varun beverages from 2018 to 2021.

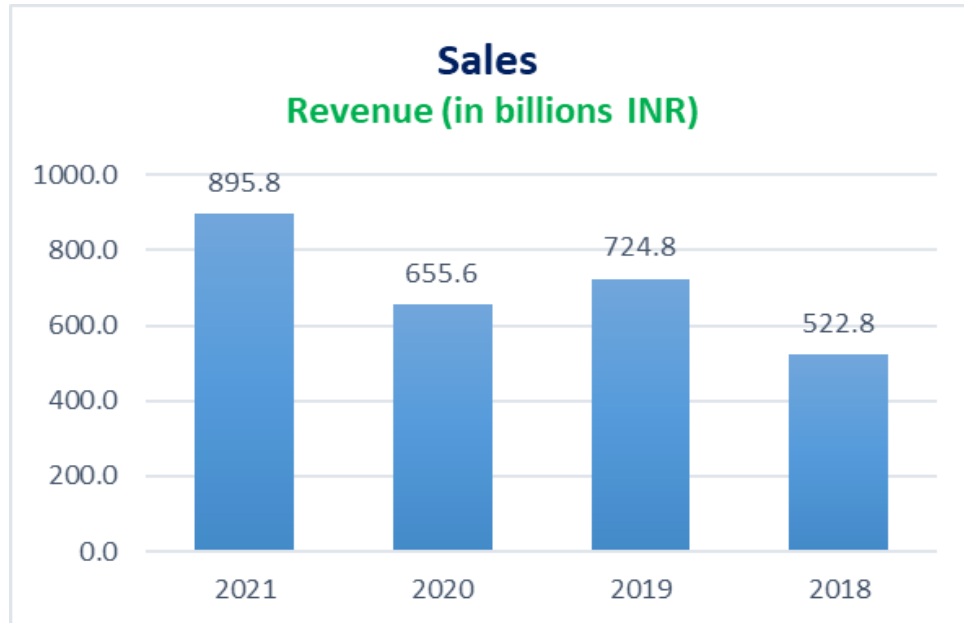
<b>Year</b>	<b>Total Revenue</b>	<b>Total Expenditure (Fixed Cost + Cost of Goods Sold)</b>	<b>Status</b>
<b>2018</b>	52281.27	45412.76	<b>Green</b>
<b>2019</b>	72484.58	61912.24	<b>Green</b>
<b>2020</b>	65557.91	59397.42	<b>Green</b>
<b>2021</b>	89,582.91	78,178.69	<b>Green</b>

The financial health of the company is very good as per break even analysis done in Table 5. In all the years, the status of the company is in green zone i.e., the total revenue generated by the company is always more than the cost incurred.

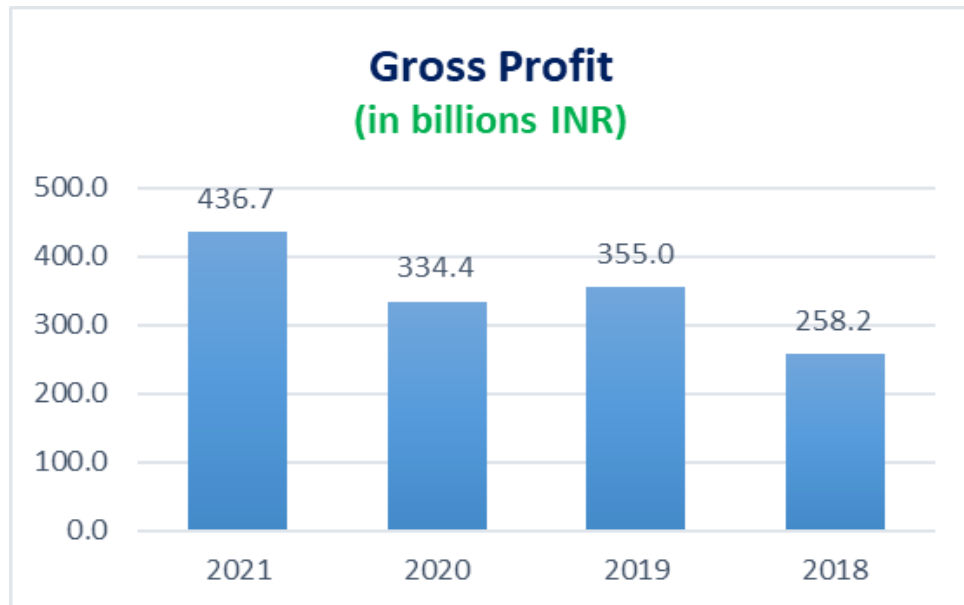
## Graphs

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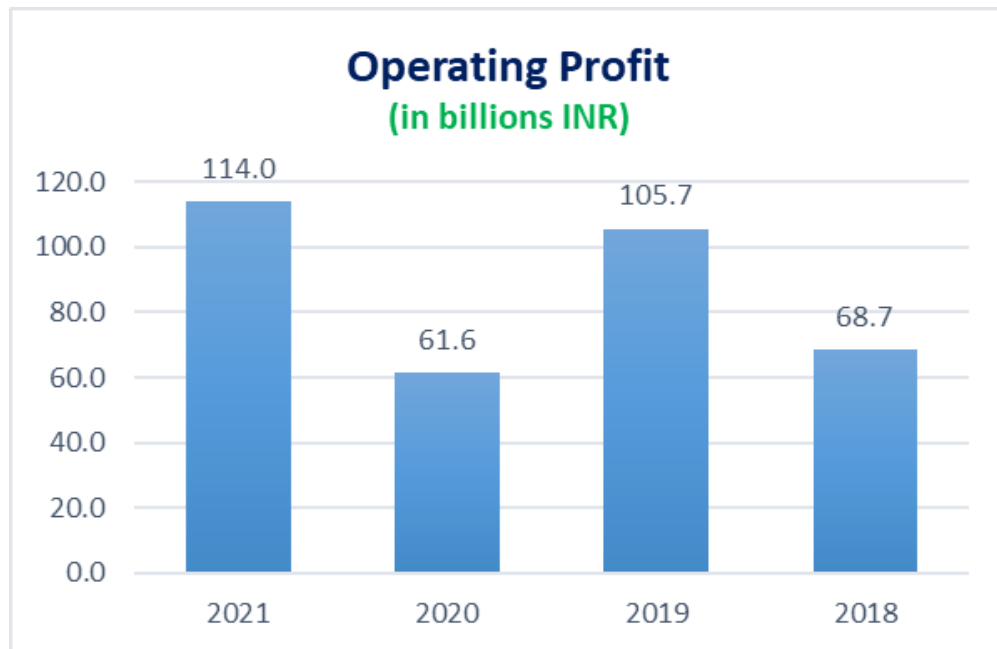
### 1. Sales



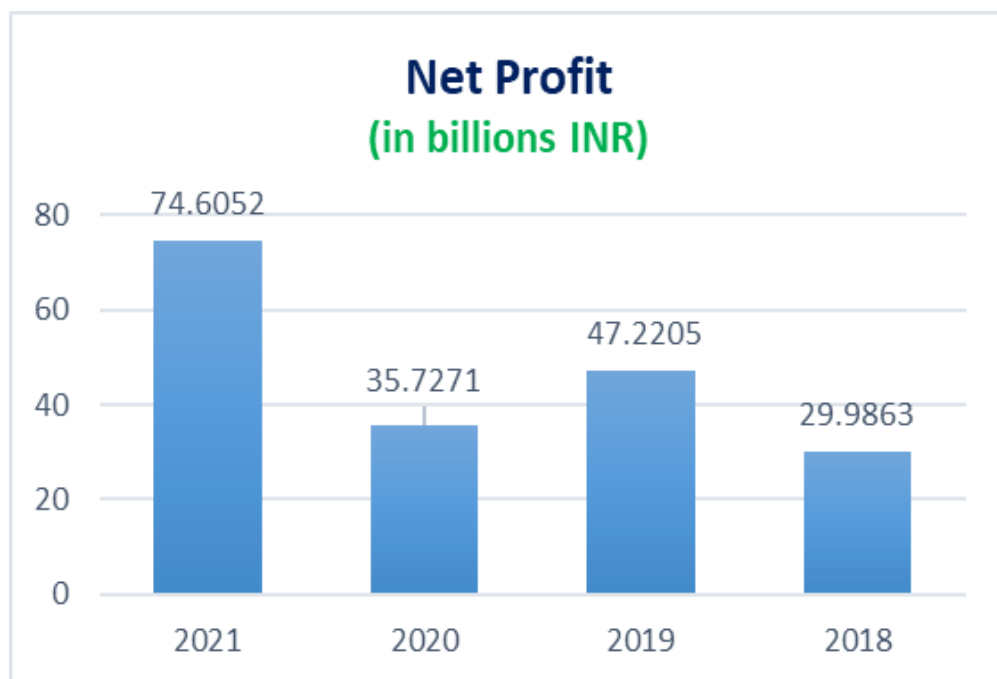
### 2. Gross Profit



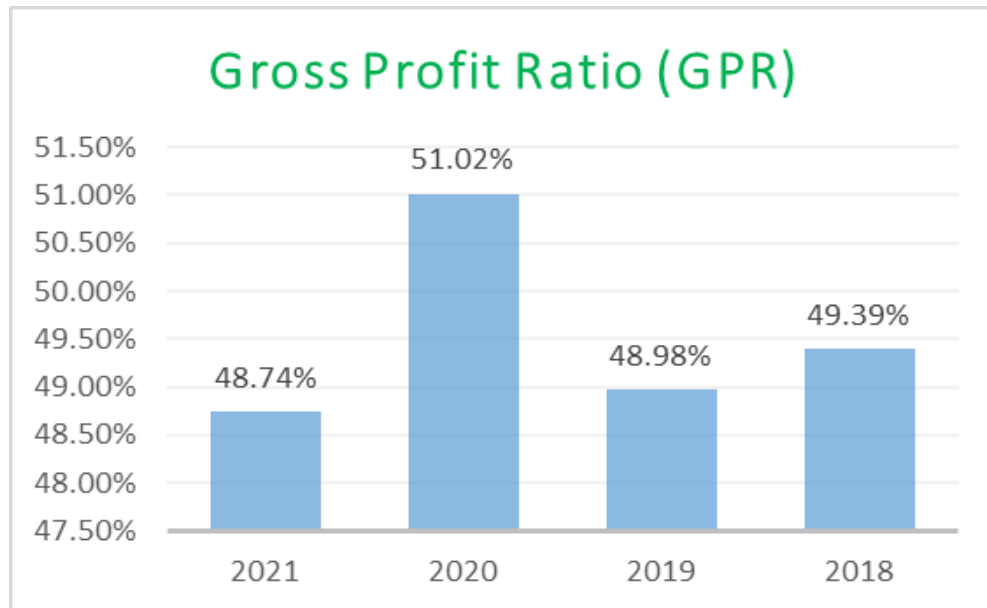
### 3. Operating Profit



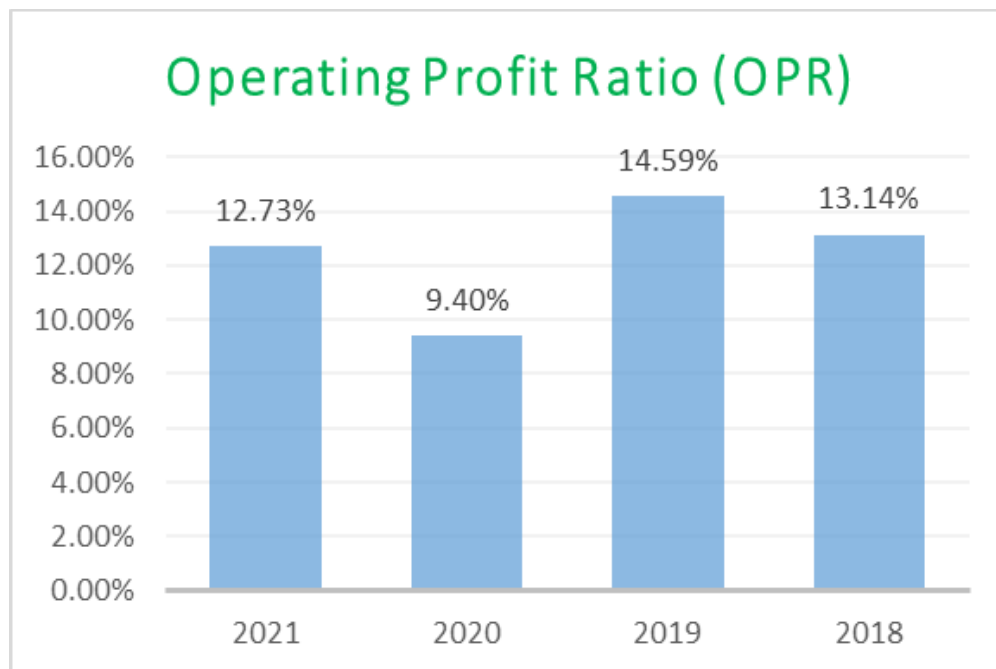
### 4. Net Profit



5. **GPR**

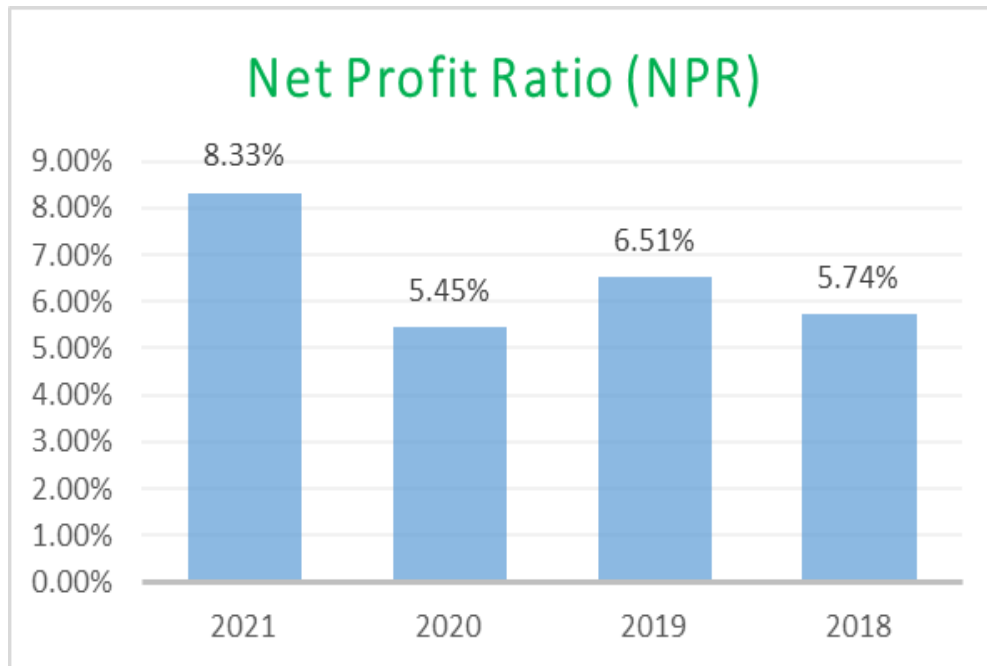


6. **OPR**

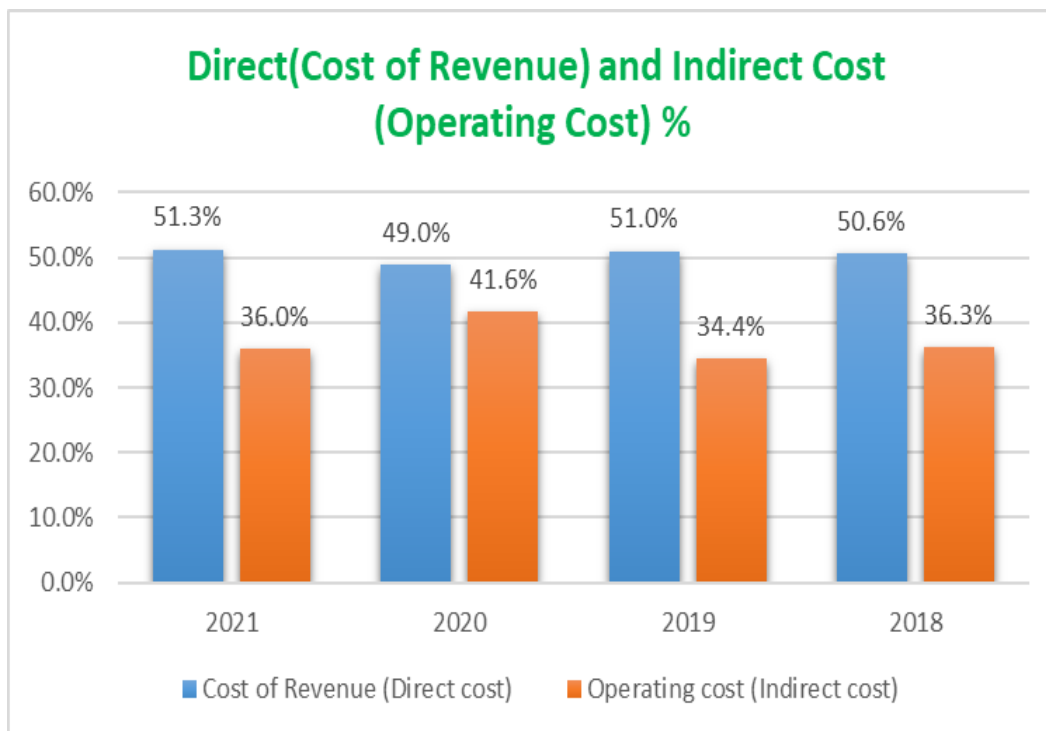




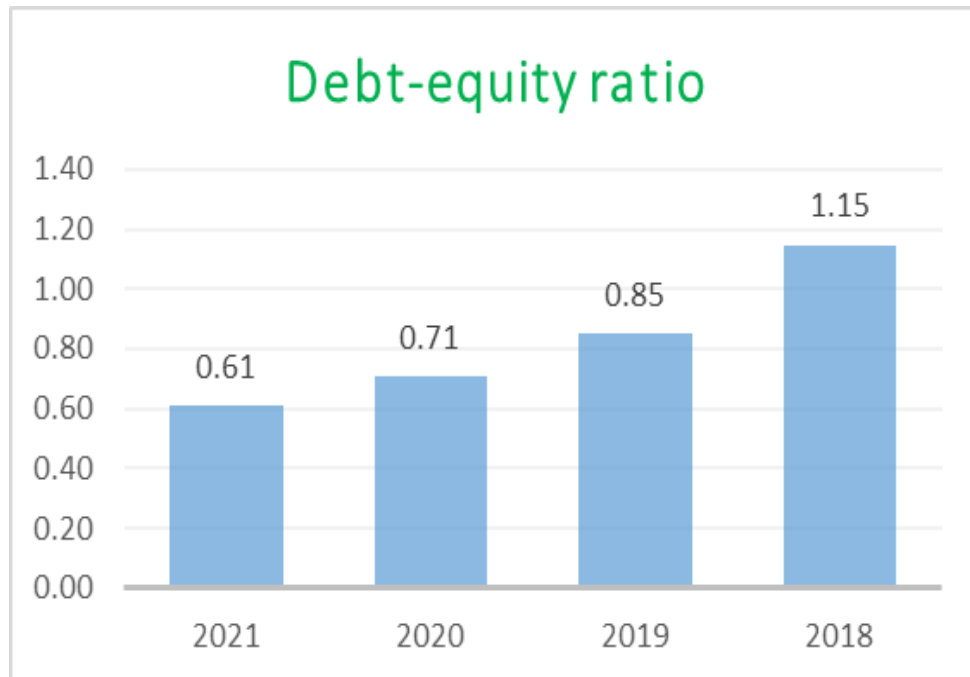
7. **NPR**



8. **Direct(Cost of Revenue) and Indirect Cost (Operating Cost) %**

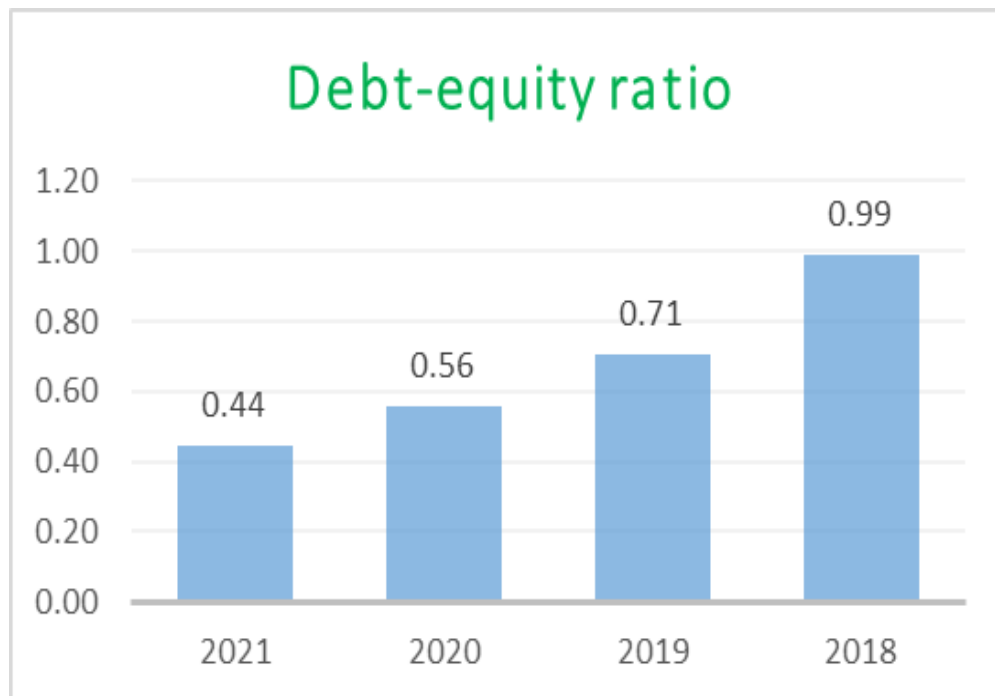


## 9. Debt, Equity

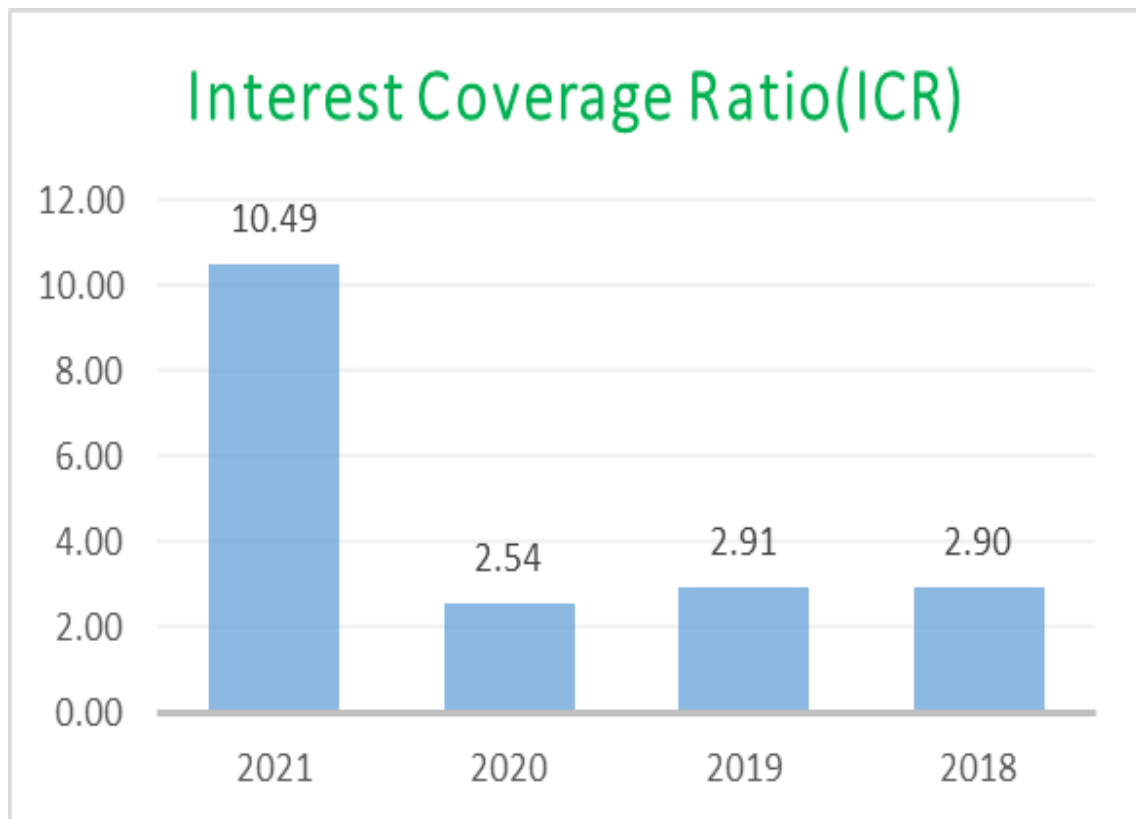


## 10. DER

[ Solvency ]



11. **ICR (if applied)**



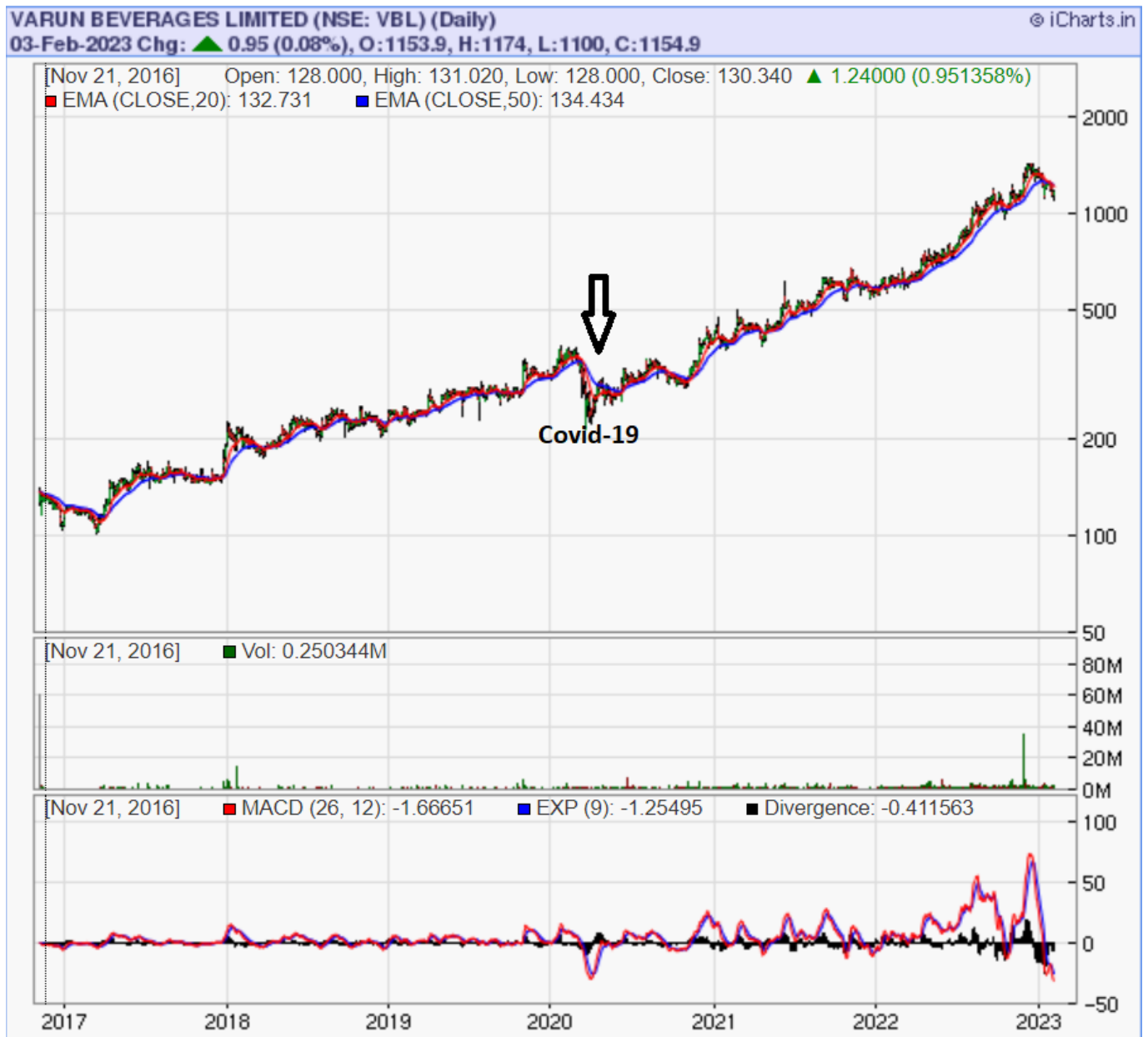


Figure 1: Pictorial representation of Varun beverages from 2018 to 2022

## Competitors

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Varun Beverages competes with several other companies in the non-alcoholic beverage industry, including:

1. Coca-Cola India: a subsidiary of the Coca-Cola Company, it is one of the largest beverage companies in India and offers a wide range of products including soft drinks, juices, and mineral water.
2. Parle Agro Pvt Ltd: an Indian multinational company that is involved in the manufacture of beverages, snacks and confectionery products.
3. Dabur India Ltd: a leading Indian consumer goods company that produces a range of products including juices, soft drinks, and honey.
4. Bisleri International: an Indian company that is known for its packaged drinking water and mineral water products.
5. Amul: an Indian dairy cooperative that produces and sells a range of products including flavored milk, lassi, and buttermilk.

## Reference

[1][investing.com](https://www.investing.com)

[2] [icharts.in](https://www.icharts.in)